

100% Retained Business Rate Pilot 2018-2019

Background

Full retention of business rates has been a Government target for a number of years with reviews taking place and pilots agreed for the current year. However, the failure to include a Local Government Finance Bill within the Queen's Speech in 2017 led to speculation about the future of 100% rates retention. It was therefore somewhat of a surprise when in September 2017, the government published a 100% business rates retention pilot prospectus for 2018/19; *"Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models."*

In October 2017, having considered the detail of the scheme and the financial modelling that had been undertaken by the Gloucestershire authorities, Executive Committee approved Tewkesbury Borough Council's involvement in the submission of a bid to the Department of Communities and Local Government (DCLG) to be part of a Gloucestershire wide bid to become one of the selected pilot areas for 2018-19.

On the 19th December 2017, the Secretary of State made an oral statement to Parliament with regards to the draft Local Government Finance Settlement for 2018/19. Within the statement was an announcement of the areas selected to be business rate pilots in 2018/19. Gloucestershire was one of ten areas to be awarded such status and will therefore enjoy full retention for the next financial year.

Scheme Detail

The prospectus issued indicated that 2018/19 pilots would last for one year only but there is a possibility that this could be extended for a further year as the current year pilots have been. This would then lead into the national 75% retention scheme that is being proposed for 2020/21.

The prospectus also stated that all local authorities within the natural geographical / economical area would need to be part of a bid submission. Therefore the Pilot area will incorporate all six Gloucestershire Districts plus the County Council.

Under full retention, all authorities will forego the equivalent of their Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG). For Tewkesbury, this amounts to £294,000 in 2018/19. The same sum is added back to the Business Rates Baseline Funding Level meaning Tewkesbury's BFL will increase on a one-off basis to £2.07m. If the Pilot ceases after one year, both RSG and RSDG will be reinstated and the BFL will fall back to a normal level.

Under 100% retention, any business rates income generated over the Baseline Funding Level of the Pilot, having taken into account tariffs paid to central government, is retained within the pilot area. There is no levy as there is with the current 50% scheme. The financial modelling undertaken has suggested a level of business rate retention of circa £10.5m in excess of current retention for the Pilot as whole. This figure has been calculated based on a prudent assumption of likely levels of business rates in the financial year. Further growth in the business base could increase this level of retention.

The Government prospectus indicated that the funds generated should be used to support financial stability and sustainability. It was also felt that any bid to Government should reflect the Government's aim of supporting both adult and children's social care. Therefore the bid that was made built upon the distribution principles of the existing Gloucestershire Pool and suggested a distribution of:

- 20% towards the Strategic Economic Development Fund
- 30% towards the six Districts
- 50% towards the County Council

Under this distribution method, Tewkesbury would see an additional retention of nearly £400,000 to be invested in the financial sustainability of the authority. The monies would be available for use in the following financial year. In addition, £2.1m would be available to support Economic Development throughout Gloucestershire and £5 ¼ m made available to support County Council services.

The issue of the size of losses that a Pilot would be subject to fluctuated over the period of consultation, with DCLG finally clarifying that a no detriment clause would be applicable to this round of pilots as it is with the current year pilots. Under this clause, authorities can be no worse off than they would be if they remained in the 50% retention scheme. The original proposal to remove this clause had caused some concern amongst finance officers particularly with business rate relief for NHS Trusts being requested and other outstanding appeals such as Virgin Media. The re-inclusion of this clause removed the possibility of substantial losses within the Pilot and gave officers confidence that even in the worst case scenario, where all of the biggest appeals were successful all in the one year, individual authorities would not be any worse off than under the current arrangements. For Tewkesbury, substantial provisions are now included within its accounts against reduced business rate assessments and a reserve has been established to cover an element of lost growth as well as losses down to the safety net threshold.

Governance arrangements

The governance of the pilot will be broadly similar to the arrangements for the existing Gloucestershire Pool. Stroud District Council will act as lead authority for the Pilot and performance will be subject to regular review by s151 Officers. There will also be support provided by a technical group made up of finance and revenues officers. Pilot performance will be reported to the Gloucestershire Economic Growth Joint Committee who will also oversee the use of the Strategic Economic Development Fund. For Tewkesbury members, performance will be reported within the quarterly financial updates.